



MINISTRY OF FINANCE
THE DEPARTMENT OF INLAND REVENUE

VAT GUIDANCE

ON THE CASH ACCOUNTING SCHEME FOR LAW FIRMS



DEPARTMENT OF
INLAND REVENUE
Central Revenue Administration



Introduction

This guide is intended to provide information on Value Added Tax (“VAT”) in relation to the Cash Accounting Scheme for Law Firms. It sets out who can use these schemes and what conditions need to be met. It should be read in conjunction with the Value Added Tax Act 2014 as amended (“VAT Act”), the Value Added Tax Regulations 2014 (“VAT Regulations”), the VAT Rules, and The Bahamas General VAT Guide (“VAT Guide”), all of which can be found on the website of the Government of The Bahamas (“Government”). **If there is a discrepancy within the Guidance Note, the law will prevail in accordance with the VAT Act, Regulations and/or Rules.**

As a VAT registrant, your main responsibility to the VAT Department is to account for VAT regularly, according to the tax filing period assigned to you. This guide explains the way you can account for VAT on the Cash Accounting Scheme.

What are your options?

There are two bases by which you can account for VAT:

1. **Invoice (or accrual) basis**
2. **Payments (or cash) basis**

Invoice or accrual basis

Using the invoice basis allows you to claim VAT when you receive an invoice. You must account for VAT when you submit an invoice, receive a payment or goods delivered or services rendered, whichever comes first.

The invoice/accrual basis is to be used by every registrant unless you are approved to use another method. Under this method you may claim for VAT incurred on purchases and imports before making payment (except for secondhand goods). However you must account for VAT on supplies even if payment has not yet been received.

Disclaimer: VAT Guidance Notes do not supersede the VAT Act, Regulations, or Rules

Payments (or cash) basis

If you are approved to use the payments basis you must account for VAT during the tax period in which you make or receive payment. This is why it is sometimes called the cash basis. However, you still need to issue VAT invoices to other registrants who would account for the VAT according to the regular time of supply rules in section 32 (1) of the VAT Act. You would also need to receive VAT invoices for supplies made to you before you can claim an input tax credit, but this credit can only be claimed when you pay the input tax. Upon the law firm's approval to use the cash basis, the law firm will no longer follow the general time of supply rules illustrated by the VAT Act (Section 32(1)). The time of supply will be dictated by the receipt of cash or cash equivalent from a client and the payment made to a supplier.

The following serve to demonstrate how the method works

Example 1

XYZ Ltd operates a law firm. For the month of January 2017, a client was billed for \$215,000, inclusive of tax. Of the \$215,000, XYZ was paid \$139,750 of the fee billed.

The company paid \$4,500 VAT office supplies. It purchased AC maintenance services for which tax invoices were received, amounting \$ 6,750. Of the \$6,750, the company paid its supplier \$3,000 in January.

Using the Cash basis the tax payable would have been \$2,250.

Cash/Payment basis

VAT	\$
Output tax on sales	9,750.00
($\$139,750 \times 3/43$)	
Less Input tax	7,500.00
($\$4500 + 3000$)	
VAT payable	2,250.00

Who may use the cash basis?

Any entity authorized to engage in the practice of law may apply to the Comptroller in writing on Form 43 (Application for Changing the Accounting Basis) to use the cash basis. The cash scheme will not give you a tax advantage; rather it is purely designed to assist you with your cash flow in that you will not have to pay VAT to the Comptroller until you have collected it from your client. This scheme does not change the services for which VAT must be charged. Funds collected on behalf of clients to be held in escrow and other similar funds held on behalf of clients or for the provision of filing fees and other like charges do not attract VAT. (see Accounting for Reimbursables below)

How does the Cash Accounting Scheme work?

VAT on your revenue (output tax) must be accounted for on the VAT Return for the tax period in which your client pays you. The date your client pays you is usually the date you are actually in receipt of the funds or it becomes available to you.

If your client pays by cheque, it is the date of the cheque. If payment is by credit or debit card, it will be the date they swipe the credit or debit card. If for some reason, the cheque is dishonoured the recipient of the funds must make an adjustment to their accounts as well as account for the adjustment on the VAT Return.

If an agent collects payment on your behalf, the date of payment is the date the agent collects the funds not the date the agent pays the funds to you.

If you receive a partial payment you must treat the payment as VAT inclusive and account for VAT on the partial payment received.

If you receive a non-monetary payment (for example, in a barter transaction) the date of payment will be the date you receive the goods or services you are accepting in exchange for your supply.

Accounting for Cash Receipts and Payment

If you opt to apply for the cash accounting scheme, you have undertaken to recognise revenue and payments on a cash basis, to keep your vat account on a cash basis and to keep all copies of receipts issued, cheques, credit and debit card slips and bank statements ready and available for inspection by the Comptroller.

Accounting for Reimbursables

Funds received on behalf of your client or from your client in order to make statutorily required payments or payments into court or any likewise payments may be considered to reimbursements.

To treat the payment as a reimbursable the following requirements must be met:

- You paid on your client's behalf and such sums are deposited/kept in a separate client account.
- Your client received the benefit or advantage of the goods or services.
- The responsibility to pay the goods or services was solely the client's.
- The client gave permission to make the payment.
- Your client had knowledge that the goods or services were in furtherance of a legal requirement.
- You show the cost of the reimbursable separately on the invoice.
- The exact cost of the reimbursable is passed on to the client.

Costs that the law firm incurs when supplying goods or services to clients are not considered reimbursable. Goods and services that are not considered reimbursable include but are not limited to supplies such as travelling, transportation and lodging expenses. VAT must be charged on these whether or not they are itemized on the invoice provided to the client.

How do I recover VAT on purchases?

Whilst using the Cash Accounting Scheme, you can only recover VAT on goods and services once you have paid for them. You must not use the date of the invoice as the time of purchase unless the payment was made on that date. If you pay by cheque, credit card, debit card or bank transfer, the date you pay will be recognized as the date of payment.

For the purposes of the Cash Accounting Scheme you can only recover the VAT on imported goods or services once you have paid the import VAT. The date import VAT is due on goods or services is within 21 days after the tax period in which the services were imported.

More information on what you can recover VAT on is provided in the VAT Guide, the VAT Act and the VAT Regulations.

When do I need to leave the Cash Accounting Scheme?

The period of time in which the registrant may use the cash basis of accounting will be determined by the Comptroller on a case by case basis.

What documentation must be kept?

In addition to the invoices issued to clients and received from suppliers, proof of payment should be kept in order to indicate that payment was given or received. For example, invoices that clients have paid on should include a payment stamp indicating the time and date the services rendered were paid for. In relation to paying suppliers, a copy of the cheque should be kept as proof of payment. (See Accounting for Cash Receipts and Payment for additional documentation to be kept)

The Law

You may find the following references to the legislation useful.

VAT Regulations

Part II Regulation 19 - cash basis accounting for VAT returns

Further information be obtain from the Taxpayers Services help desk: 1-242-225-7280

Or you can contact us by email: taxinquiries@bahamas.gov.bs

Or you can write to:

Department Of Inland Revenue

Central Revenue Administration

P.O. Box N-13

Nassau, N.P., Bahamas

<http://inlandrevenue.finance.gov.bs>